

PUBLIC HOSPITAL DISTRICT NO. 1
Clallam County, Washington
January 1, 1991 Through December 31, 1993

Schedule Of Findings

1. The District Should Not Use Bond Redemption Funds For Operating Expenditures

The district had \$3.25 million in general obligation bonds payable outstanding at December 31, 1993. The district has a Bond Fund created specifically for the redemption of the bonds principal and interest. The principal and interest are paid from property tax levies and other revenues of the district available for such purposes. These moneys are accounted for in the Bond Fund. However, between 1987 through 1992, the district transferred a total of \$1,013,574 from the Bond Fund to its Current Expense Fund for purposes other than bond redemption. This resulted in property tax levies being increased by the total amount of \$1,013,574 transferred from the Bond Fund. These transferred funds were comprised of revenues from state forest board transfer lands, timber excise tax, and Bond Fund investment interest.

During the above years, the district was taxing, under its general taxing authority, at the maximum rate allowable under state statutes and by transferring the forest and timber money from the Bond Fund, the district exceeded its tax limitations in the receiving fund, and violated RCW 84.52.050 which states:

... the aggregate of all tax levies upon real and personal property by the state and all taxing districts . . . shall not in any year exceed one percentum of the true and fair value of such property in money . . . Such aggregate limitation or any specific limitation imposed by law in conformity therewith may be exceeded only as authorized by law . . .

Furthermore, the district violated RCW 43.09.210 when it used the forest and timber moneys for other than debt redemption. RCW 43.09.210 states in part:

No department, undertaking institution . . . shall benefit in any financial manner whatever by an appropriation or fund made for the support of another.

The Bond Fund was specifically set up for the redemption of debt, and the county treasurer levied property taxes on the basis of bond redemption requirements and available revenues in the Bond Fund in accordance with RCW 70.44.130, which states:

The principal and interest of such general bonds shall be paid by levying each year a tax upon the taxable property with the district sufficient, together with other revenues of the district available for such purpose, to pay said interest and principal of said bonds, which tax shall be use and collectible as any other tax. . . . (Emphasis ours.)

The county treasurer distributed the forest and timber revenues in accordance with RCW 76.12.120, and the district would not have received any forest or timber money in their

Debt Service Fund if it did not have any general obligation debt. If the district had used the forest and timber moneys for debt redemption, the taxes levied to service the debt would have been lower.

District management made the transfers from the Bond Fund because they felt it was the county treasurer's responsibility to levy 100 percent of the debt and interest, and not include the other revenues available in the Bond Fund.

We recommend the district:

- a. Return the \$1,013,574 to the Bond Fund.
- b. Discontinue using revenues in the Bond Fund for other than their intended purpose.
- c. Discontinue exceeding their levy limitations.

2. Accounting For Fixed Assets Should Be Improved

The district does not maintain sufficient documentation to properly account for fixed assets. Because of the absence of adequate documentation, the district does not have adequate information to:

- a. Prepare complete and accurate financial statements.
- b. Determine proper depreciation expense.

Because the district does not maintain adequate documentation for its fixed assets, there is an increased risk that errors or irregularities may occur and not be detected by management in a timely manner.

We believe these conditions constitute a material weakness, and have, therefore, qualified our opinion on the financial statements.

District management indicated they were aware of these conditions and the importance of implementing the following recommendation. However, staffing and funding have not been adequate to resolve the condition noted.

We recommend the district maintain sufficient documentation to properly account for fixed assets.